



AUDIT UPDATE

City Council Workshop
July 2, 2019

Recommendation 1: Interfund Loans

- *“To ensure that it complies with state law, Lincoln should immediately review all of its outstanding interfund loans to determine whether the borrowing funds can repay the loans according to the terms. For any loan that is from a restricted fund and that does not have the capacity to be repaid, Lincoln should develop a plan that ensures repayment within a reasonable timeframe, including seeking possible alternative financing or revenue sources, such as the General Fund, bonds, one-time revenues, or a tax increase, to address the obligation.”*

Implementation Update

- Internal Review of Loans Initiated
 - Compliance with 2013 Interfund Loan Policy
 - Compliance with Loan Agreement
- Preparation of Plan for Repayment

Recommendation 1 B: Surpluses

- *“To ensure that it avoids accumulating surpluses, by August 2019, Lincoln should establish policies and procedures requiring it to review its fund balances at least annually and, if necessary, reduce its fees within a reasonable timeframe.”*

Implementation Update

- A Budget Policy was adopted by City Council on April 23, 2019
- Budget Policy includes a requirement to evaluate all funds on an annual basis to determine whether or not a surplus exists
 - analysis of required reserve levels
 - planned expenditures
 - future capital replacement needs
- Annual Budget process for Fiscal Year 2019/2020 preliminarily determined surplus exists in Water Funds 710 and 711
- Developing reserve policies for the wastewater, solid waste, source water capacity, and lighting and landscaping district funds

Recommendation 1C: Due to/From Loans

- *“To comply with state law, Lincoln should immediately discontinue its practice of using restricted funds to subsidize other funds that have year-end deficits and lack the ability to permanently repay the transfers within 90 days of the close of the fiscal year.”*

Implementation Update

- June 11, 2019 City Council adopted an interfund loan for the Airport Fund 750
 - Debt in the amount of \$4.9 million
 - General Fund 100 was identified as the lender and Fund 750 the borrower
 - This interfund loan will replace the Due To/From transaction that has historically occurred in the past to address Fund 750 debt

Recommendation 1D: LLAD Tracking Procedures

- *“By June 2019, Lincoln should establish accounting procedures to ensure that it records all costs of city maintenance from the appropriate funds, including apportioning the general benefit costs to the general fund.”*

Implementation Update

- Began tracking of maintenance expenditures by fund and per LLAD Zones Fiscal Year 18/19
- Initial transfer of funds from the General Fund to the LLAD Fund 750 that reflects the cost of the general benefit and the cumulative zone deficit was completed in June
 - Amount will be trued-up at fiscal year-end and modified as necessary
 - Procedures utilized to record all maintenance costs appropriately have been refined and memorialized in a written document

Recommendation 1 E: LLAD Tracking by zone

- *“To ensure that it complies with the state constitution, Lincoln should establish and adhere to procedures that account for revenue and expenditures in each landscaping and lighting zone separately, and it should discontinue the use of surplus revenue from one zone to offset a deficit in another zone. It should take these actions by June 2019.”*

Implementation Update

- Initiated in Fiscal Year 18/19
- Estimated amount of cumulative zone deficit transferred from General Fund to LLAD Fund 270
 - Will be trued-up during fiscal year-end and modified as necessary

Recommendation 1 F: Staff Report Templates

- *“To ensure that city staff provides the city council adequate information to make its decisions regarding interfund loans and transfers, the city council should immediately collaborate with the city manager and department directors to establish formal expectations regarding the content of staff reports, and it should hold the city manager accountable for ensuring all staff reports meet those expectations.”*

Implementation Update

- This recommendation has been implemented
- The City Council has adopted the new staff report template by Resolution

Recommendation 2A: Water Capacity Fees

- *“Lincoln should immediately commence a fee study that ensures its fees for water capacity are commensurate with the costs of current and planned future water capacity needs. To the extent that Lincoln has previously overcharged for water capacity fees, it should develop a plan to provide equitable consideration to those who overpaid such fees and it should eliminate any unnecessary surplus in the water connections fund.”*

Implementation Update

- The nexus study to complete this recommendation is underway
- Staff anticipates presenting findings to the City Council in August 2019

Recommendation 2B: Timeline for Fee Studies

- *“To ensure that its fees are commensurate with the cost of providing services, Lincoln should develop and follow a timeline by June 2019 for conducting periodic fee studies for each of its services, including updating its staff rates annually.”*

Implementation Update

- Recommendation Implemented
 - **Water Rates:** Complete. New rates were implemented October 1, 2018.
 - **Solid Waste and Wastewater Rates:** Studies are underway. Draft rates are expected to be presented to City Council by August 2019.
 - **Public Facility Element (PFE) Study:** Draft study completed. Final study anticipated to be presented to City Council by August 2019. (Date Updated)
 - **Master Fee Schedule:** Contract awarded for preparation of the study on February 26, 2019. Completion anticipated by August 2019. (Date Updated)
 - **Cost Allocation Plan:** Contract awarded for preparation of the study on February 26, 2019. Completion anticipated by August 2019. (Date Updated)
 - **Water Connection Nexus Study:** Contract approved by City Council on March 12, 2019. Anticipated August 2019.

Recommendation 2C: Municipal Utilities

- *“To the extent allowable by law, the city council should develop a plan by August 2019 to provide equitable consideration to ratepayers for the utility costs they incurred that were higher than necessary because of the city’s practice of not paying for its own water, sewer, and solid waste services.”*

Implementation Update

- This item was originally presented to City Council on April 23, 2019.
- Item back to Council for formal consideration In July 2019.

Recommendation 2D: Identify Municipal Utility Cost in Budget

- *“To ensure transparency to the public, beginning with its fiscal year 2019-20 budget, Lincoln should specify in its annual budget the amount that it intends to spend for the use of municipal utilities—water, sewer, and solid waste—and the funds that it intends to use to pay for these costs.”*

Implementation Update

- Completed
- Included in 2019/2020 Annual Budget

Recommendation 3A: Finance Policies

- *“By August 2019, Lincoln should establish and follow policies and procedures for budgeting, preparing its financial statements at the end of each fiscal year, and approving expenditures based on the GFOA guidelines and other best practices.”*

Implementation Update

- Closing Policy and a Grants Management Policy adopted on February 12, 2019
- Budget Policy Adopted April 23, 2019
- Accounting and Financial Reporting Policy that will be presented to City Council for consideration on July 23, 2019

Recommendation 3B: Budget Policy

- *“To help ensure that the city manager fully informs the city council of all relevant information before the council approves the annual budget, the city should specify by July 2019 the supporting information that it expects staff to provide with the proposed budget. Lincoln should then update its duty statements to require the city manager and department directors to provide the city council with this information as part of the city’s budget process.”*

Implementation Update

- Complete
- The City Council adopted the Budget Policy on April 23, 2019.
- The Municipal Code and the City Manager Duty Statement already include the requirement for the City Manager to implement and administer City policy.

Recommendation 3C: Purchasing

- *“To ensure that the city complies with its purchasing policy, the City Manager should immediately develop and implement procedures for staff to obtain and document the required approval from the City Manager or the City Council before committing City resources. Beginning immediately, the City Manager should also report to the City Council on a regular basis all purchases that the City Manager approves.”*

Implementation Update

- Procedures for purchasing have been revised
- Training in process
- Reporting of purchases approved by the City Manager began on March 26, 2019 and has continued to be reported on at each formal City Council meeting

Recommendation 3D: Annual Financial Audit Deficiencies

- *“To ensure that the city management holds city staff accountable for resolving deficiencies identified in its annual audits, Lincoln City Council should immediately require the City Manager to track and report progress in addressing outstanding audit recommendations at least quarterly.”*

Implementation Update

- The corrective action plan for the 2017/2018 Annual Financial Audit was presented to the Fiscal and Investments Oversight Committee on April 9, 2019 and to City Council on April 15, 2019
- An update on the implementation of the corrective action plan will be provided to City Council on July 2, 2019

Recommendation 3E: Closing

- *“By June 2019, Lincoln should develop and follow a process to ensure that it accurately and promptly records all year-end closing entries in its general ledger and issues its CAFR within the period that state law requires.”*

Implementation Update

- Staff is in the process of preparing for fiscal year end
 - Includes the proper recording of all year-end closing entries
- New closing policy Adopted February 12, 2019

Recommendation 4A: Master Fee Schedule

- *“To ensure transparency in providing accurate fee information to the public, Lincoln should immediately update and publicly disclose its master fee schedule to reflect the fees that it actually charges. In addition, Lincoln should periodically review its fee schedule to identify outdated fees that do not accurately reflect the cost of providing services. It should revise those fees to incorporate the costs commensurate with those services and update its master fee schedule accordingly.”*

Implementation Update

- The work on the master fee schedule and the cost allocation plan is almost complete
- Upon completion of the draft study the results will be presented to City Council for consideration.

Recommendation 5A: Fee Credits

- *“To ensure that it applies the correct fee credits to developers, Lincoln should develop policies and procedures by September 2019 for establishing fee credits and maintaining adequate documentation to justify modifications to fee credits, including credits it awards based on changes in fee schedules and updated development agreements.”*

Implementation Update

- Draft PFE Study is in process
- Anticipated that this work will be completed at the end of the summer
- The City Council adopted the required annual and five year reporting for reporting of developer impacts fees per the State Government Code at the June 11, 2019 City Council meeting.

Questions